

Property Tax and School Funding in Utah

Prepared by the Office of Legislative Research and General Counsel for:

Revenue and Taxation Interim Committee
Utah State Legislature

May 19, 2010

Presentation Outline

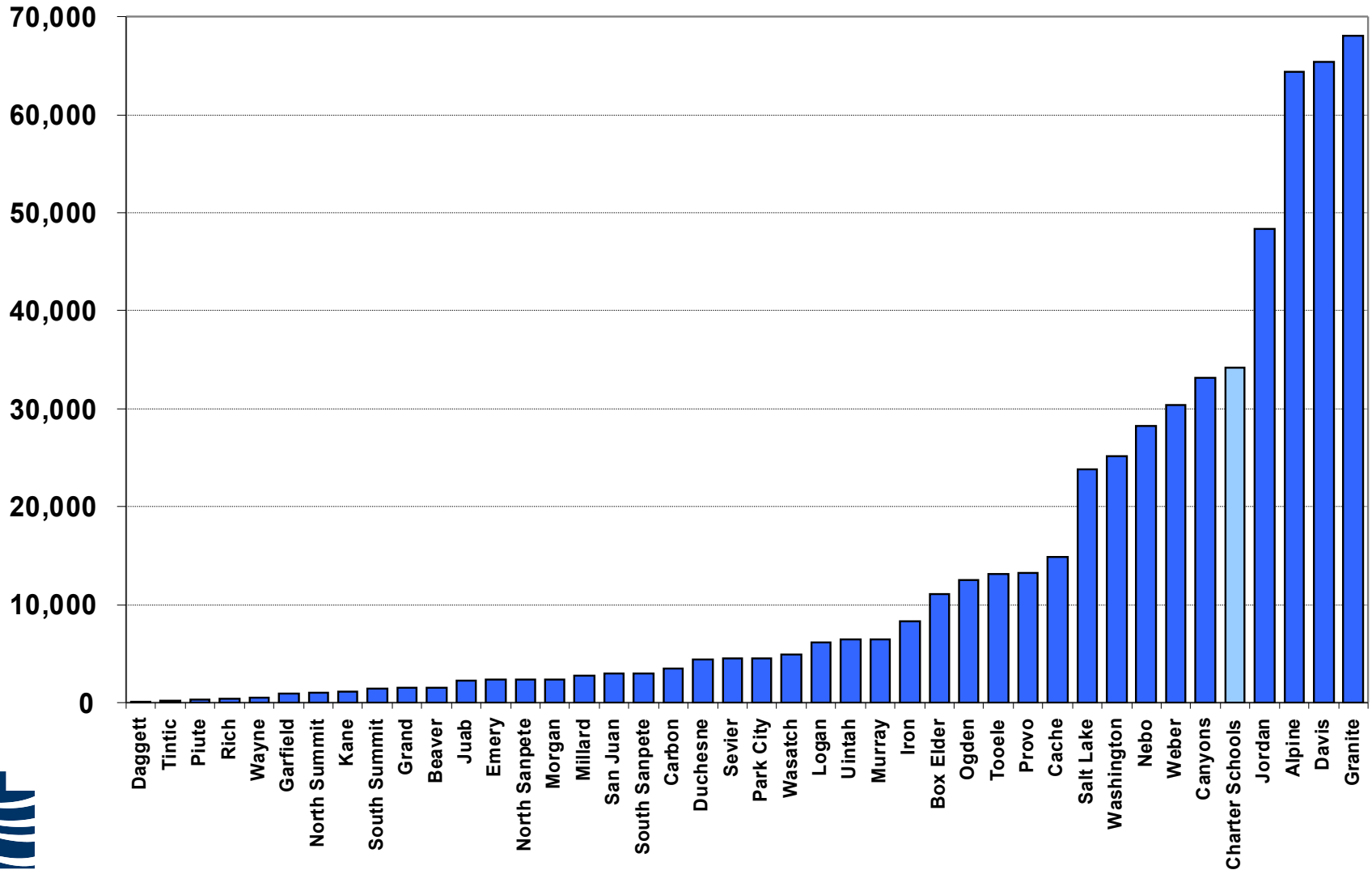
- Basic indicators of school funding needs
- School funding sources and property taxes
 - Tax base
 - Tax rates
 - Tax revenues
- Basic program equalization

Why Do School Districts Impose Property Taxes?

- To understand property taxes, it is helpful to initially consider why school districts impose the property tax
- Basic answer is to provide revenue to meet school funding needs
 - However, different definitions of funding “needs” exist
 - What are some basic measures of funding needs?

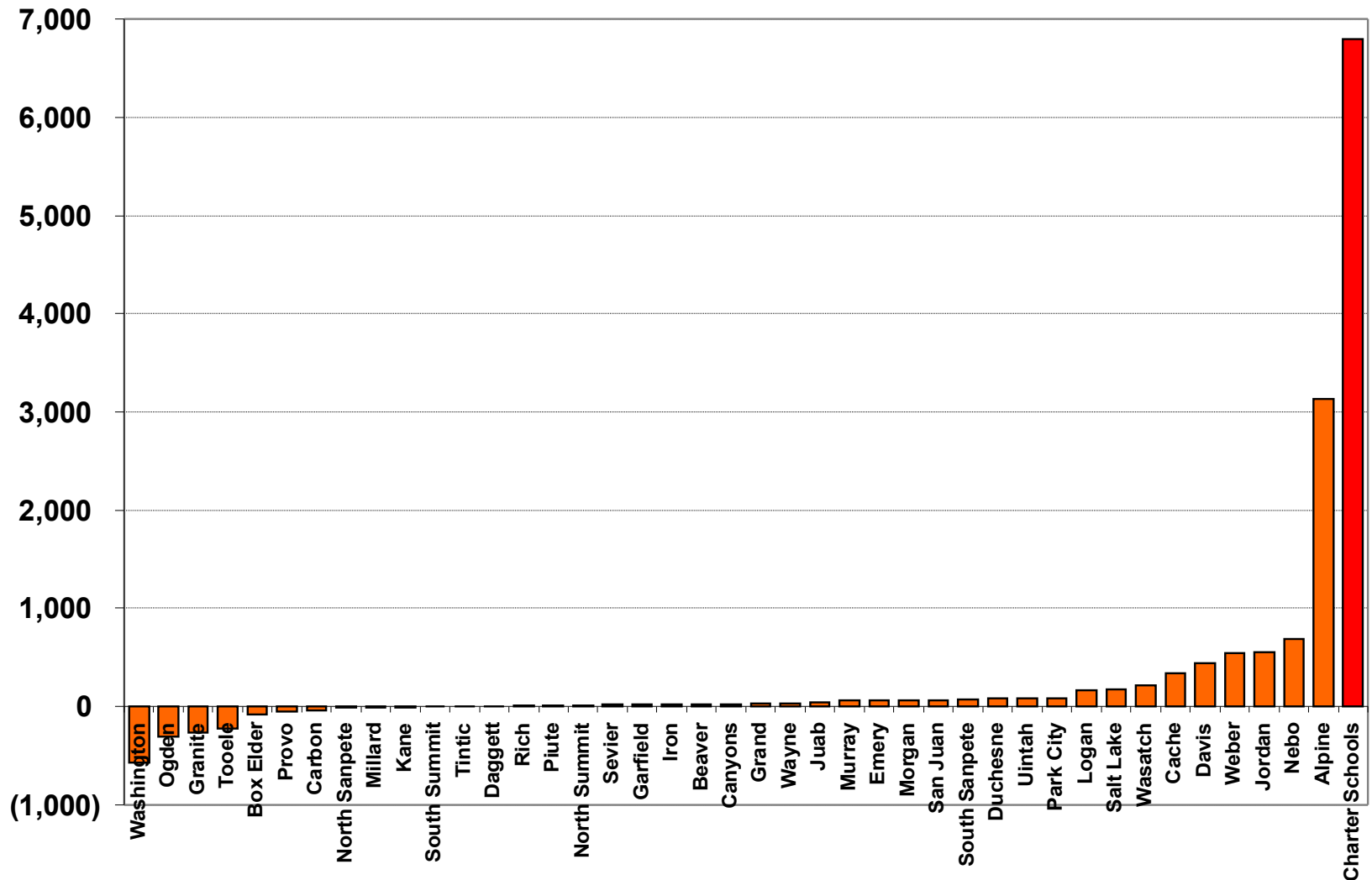
Basic Measures of School Funding Needs

Total Enrollment - 2009



Basic Measures of School Funding Needs

Enrollment Growth - 2009



Other Potential Measures of School Funding Needs

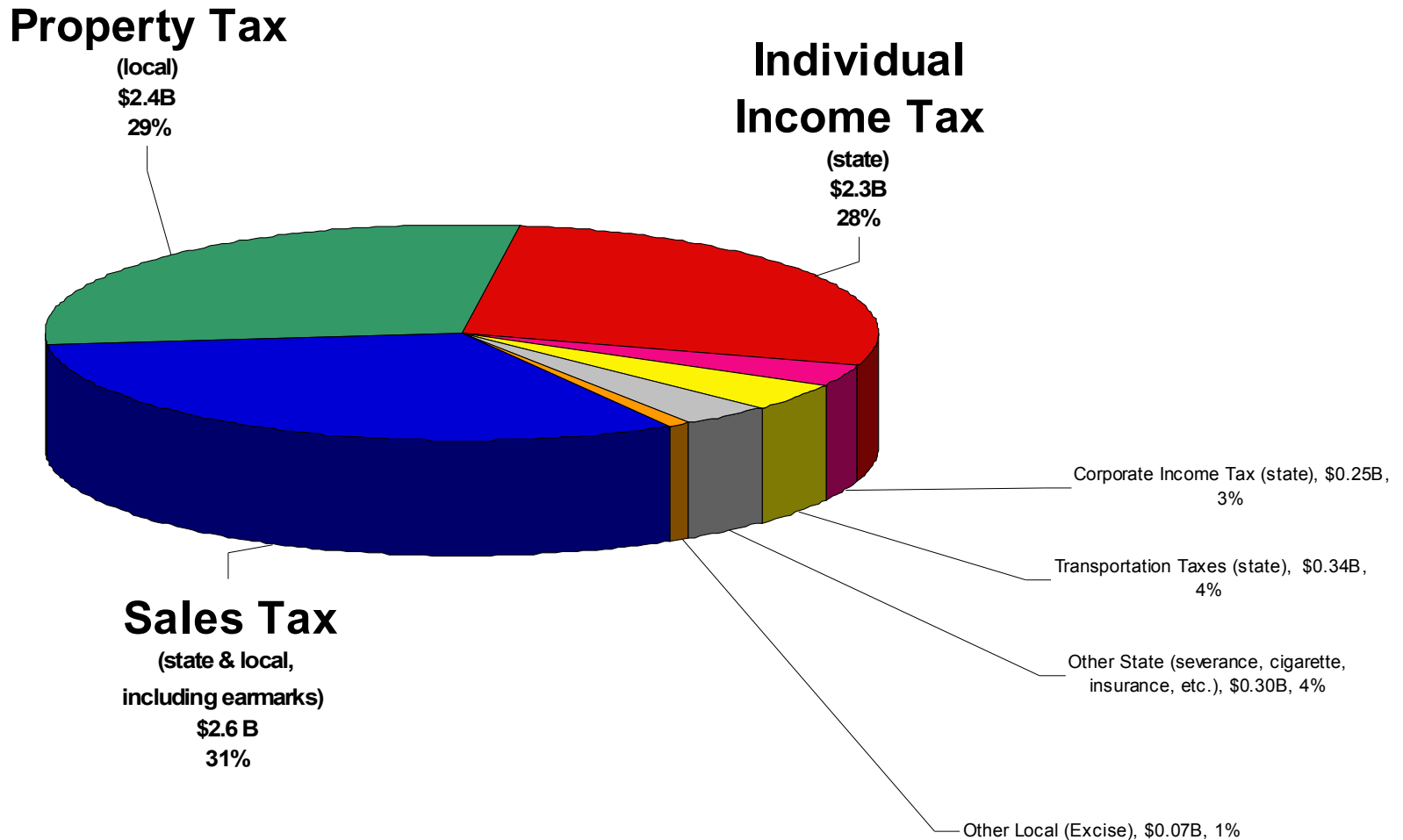
- Different types of students
 - Special education
 - English language learner
 - Gifted and talented
 - Low income
- Transportation / travel distance to school
- Capital infrastructure
 - Buildings (age, size, functionality, etc.)
 - Technology
- Other

Distribution of Needs and Tax Bases

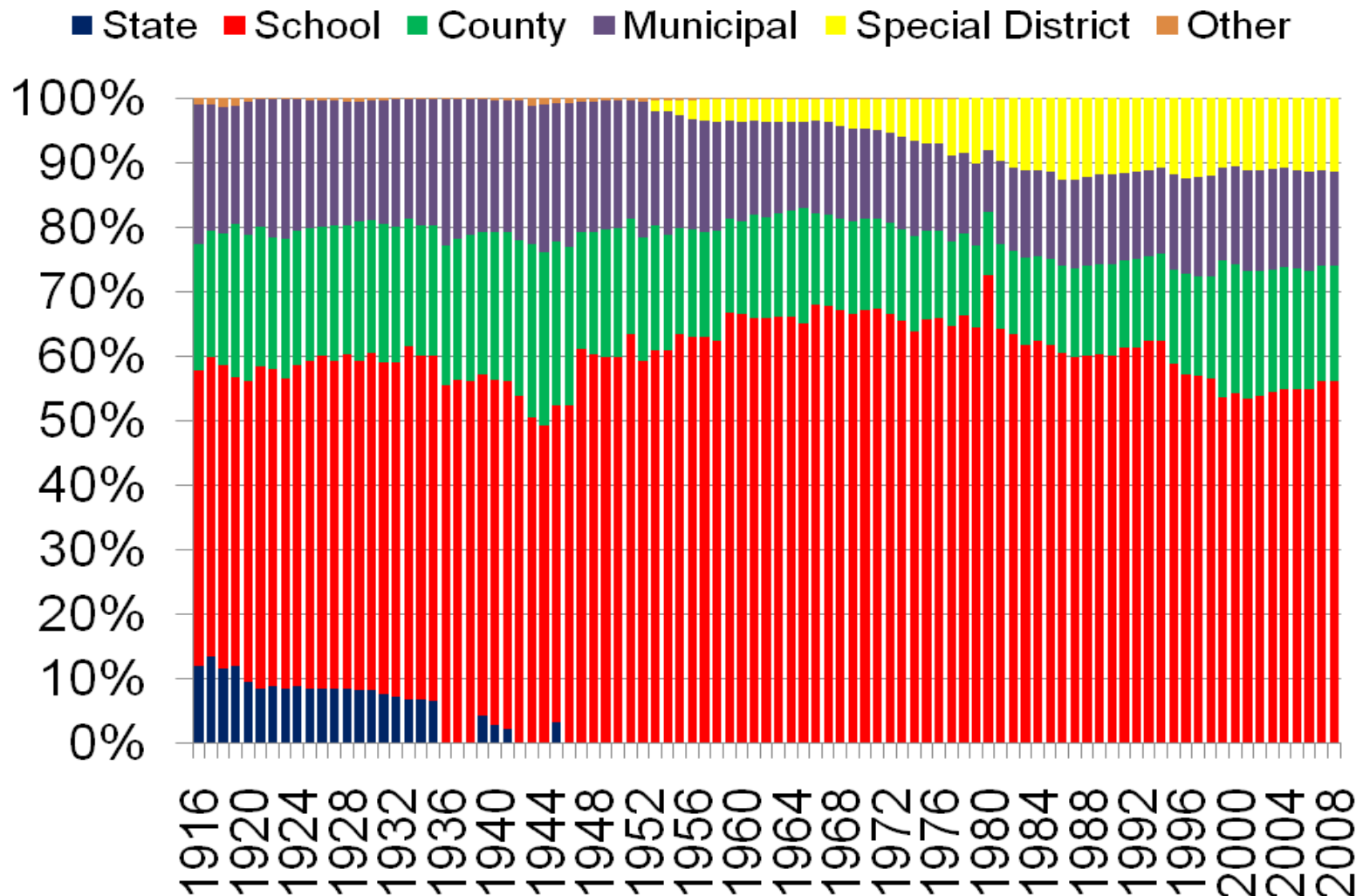
- School needs, however defined, will not match up with the tax base of any revenue source on a geographic basis (school-by-school or district-by-district)
- Examples:
 - Unlike Utah, some states allow a local income tax. The distribution of Utah's income tax base does not align with the distribution of the student population (one basic measure of school need).
 - Utah allows school districts to impose property tax. The distribution of the property tax base is not identical to the distribution of the student population (or of the income tax base).

Property Tax

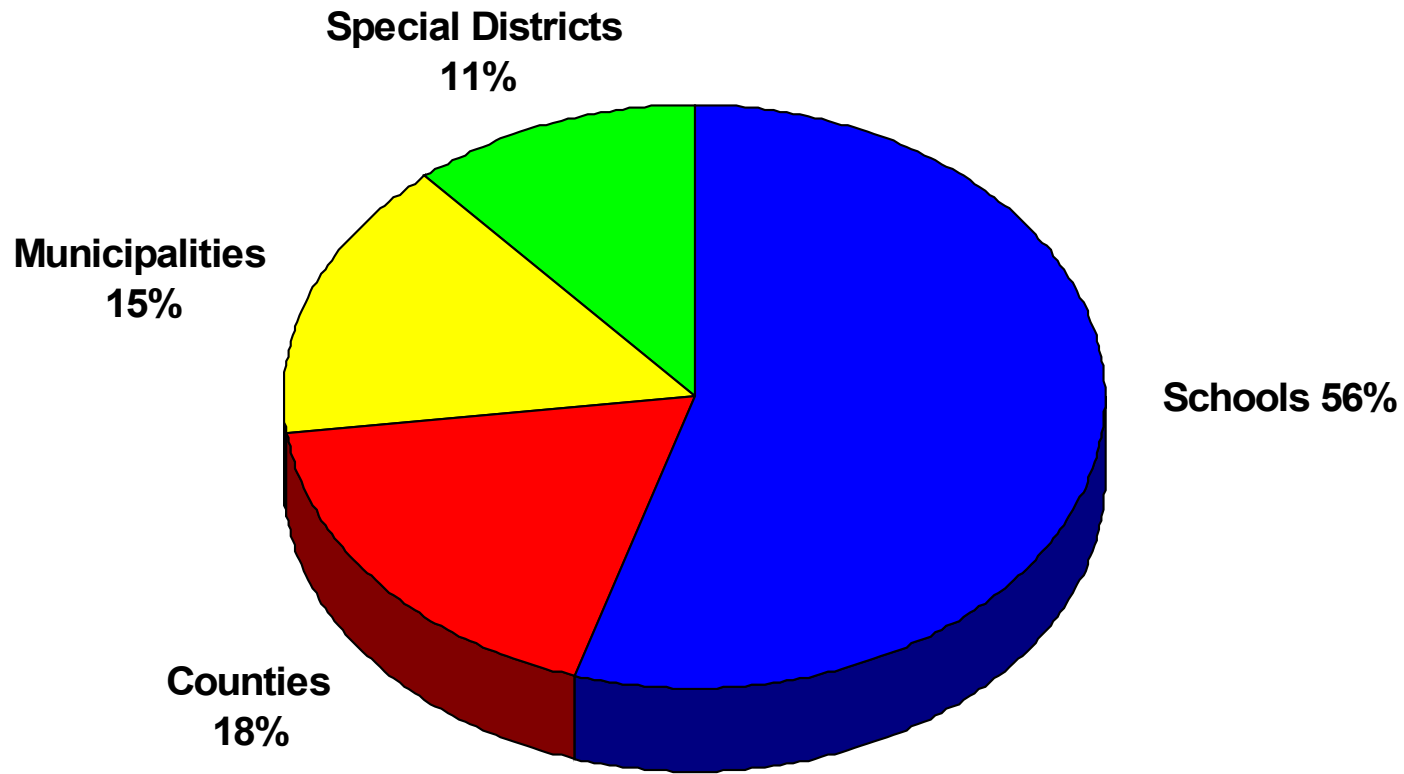
A Major Component of Utah's State and Local Government Tax System



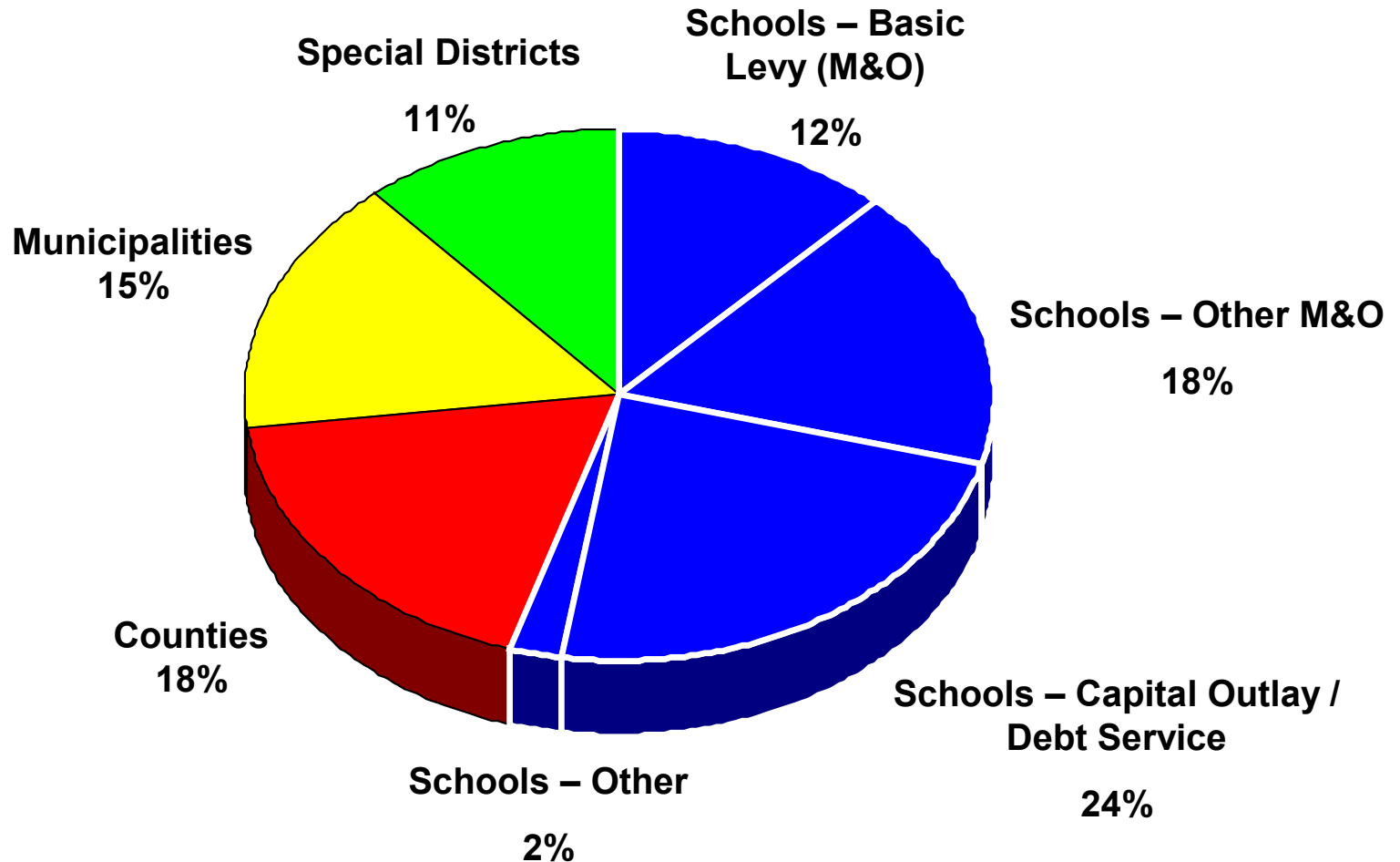
Utah Property Taxes Over Time



Property Tax by Taxing Entity Type 2008



School Property Tax Types as a Percent of Total Property Tax



How is Utah Public Education Funded?

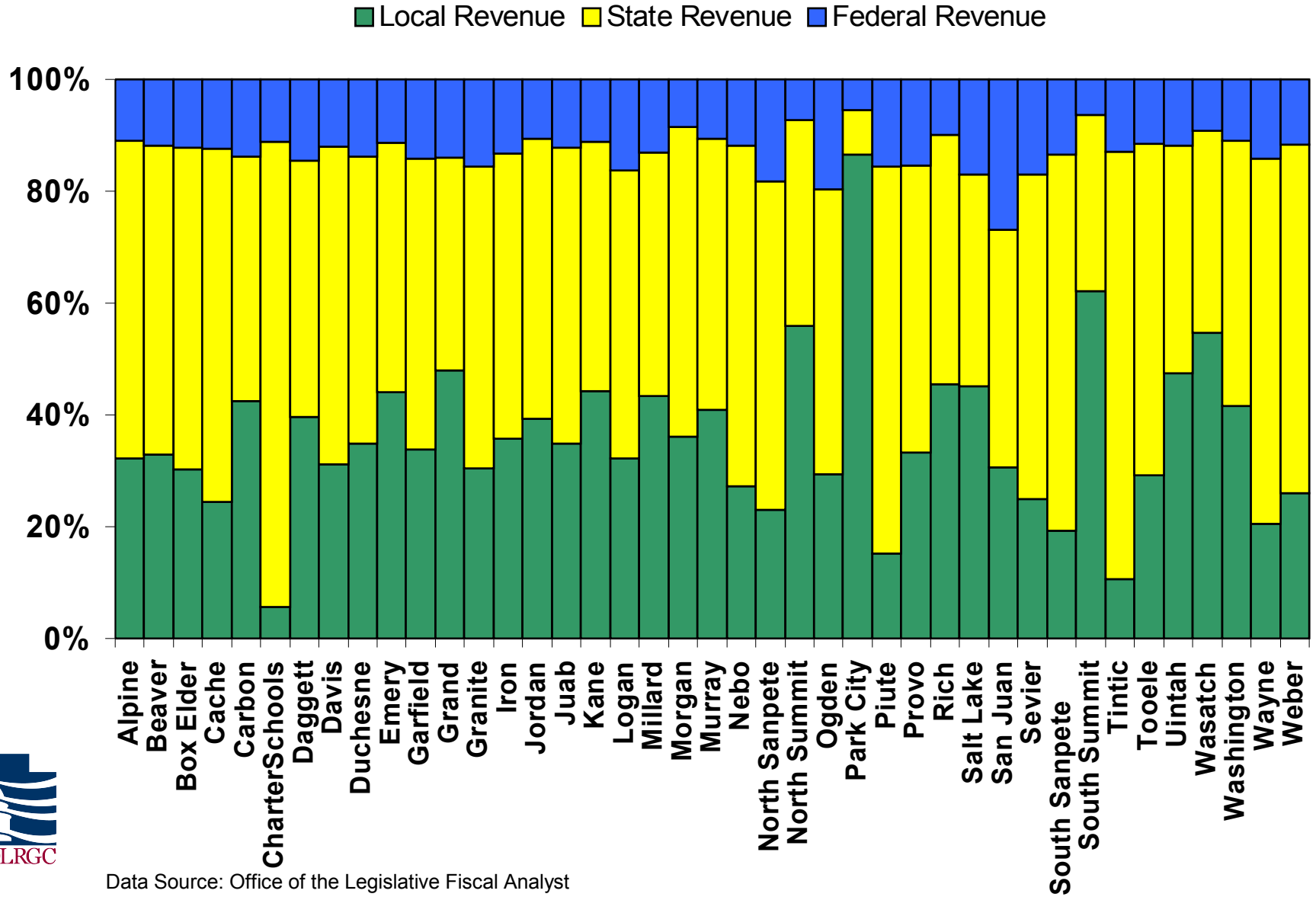
Major Revenue Sources:

- State revenue – mostly income taxes (\$2.3 billion)
- Local property taxes (\$1.2 billion)
- Federal funds / other local revenue (\$0.7 billion)

FY 2009

Data source: Office of the Legislative Fiscal Analyst, Utah State Office of Education

Major Revenue Sources by District

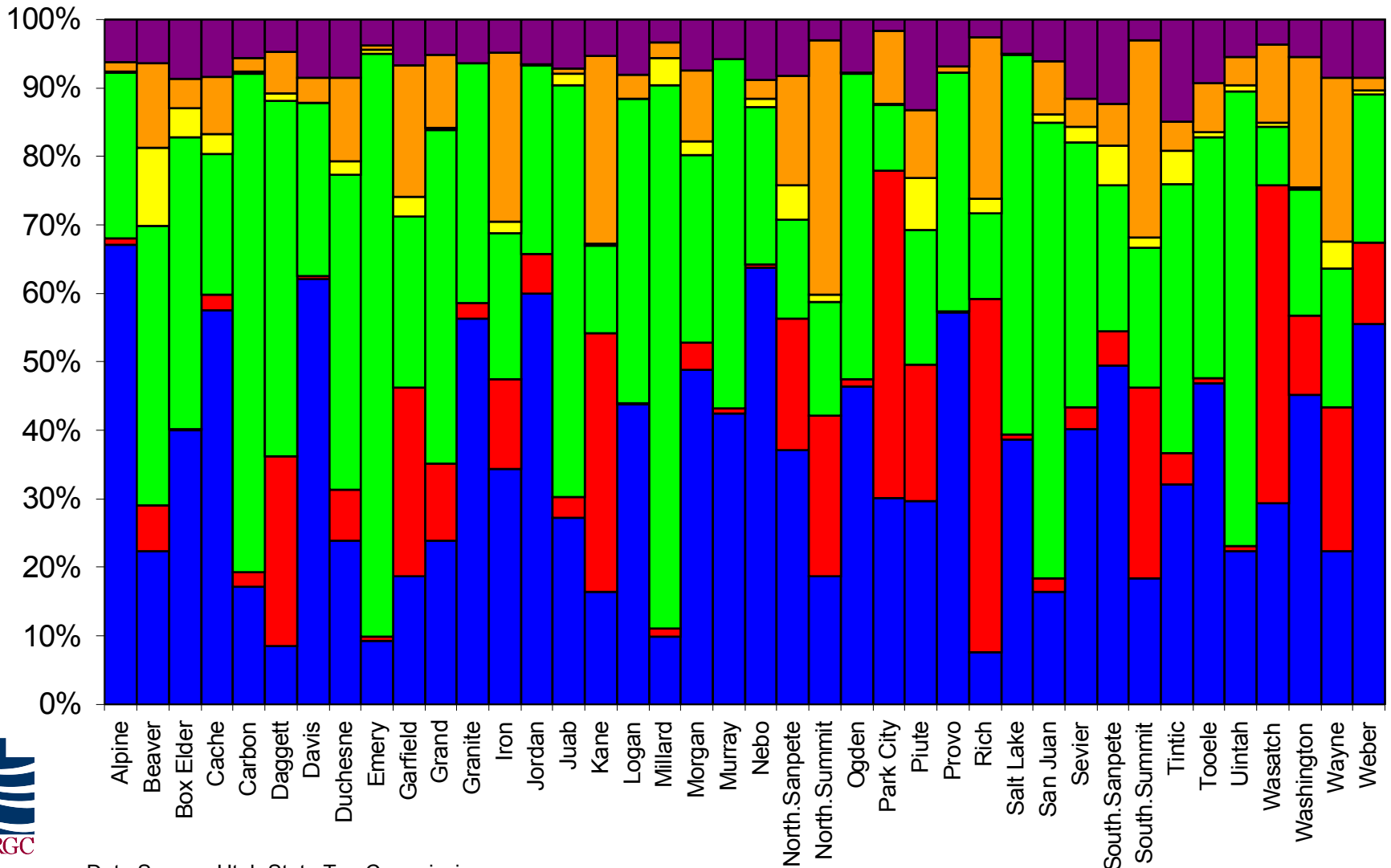


Property Tax Bases Vary

- Some school districts have greater ability than others to generate revenue through property tax
 - Measures of school funding needs (such as student populations) and property values do not align geographically
- Why do school district property tax bases vary?
 - Overall fair market value differences in different areas
 - Different mix of property types (commercial, residential, agricultural, etc.)
 - Exemption / valuation differences among property types
 - Primary residences receive 45% exemption, so 55% of value is taxable
 - Certain agricultural properties valued based on agricultural use, not fair market value
- Charter schools have no property tax base and cannot impose a property tax

School District Property Tax Base Composition

■ Primary Residential ■ Secondary Residential ■ Commercial / Industrial (includes centrally assessed) ■ Agricultural ■ Vacant Land (non-FAA) ■ Motor Vehicle



Impact of Property Tax Base on Property Tax Revenues

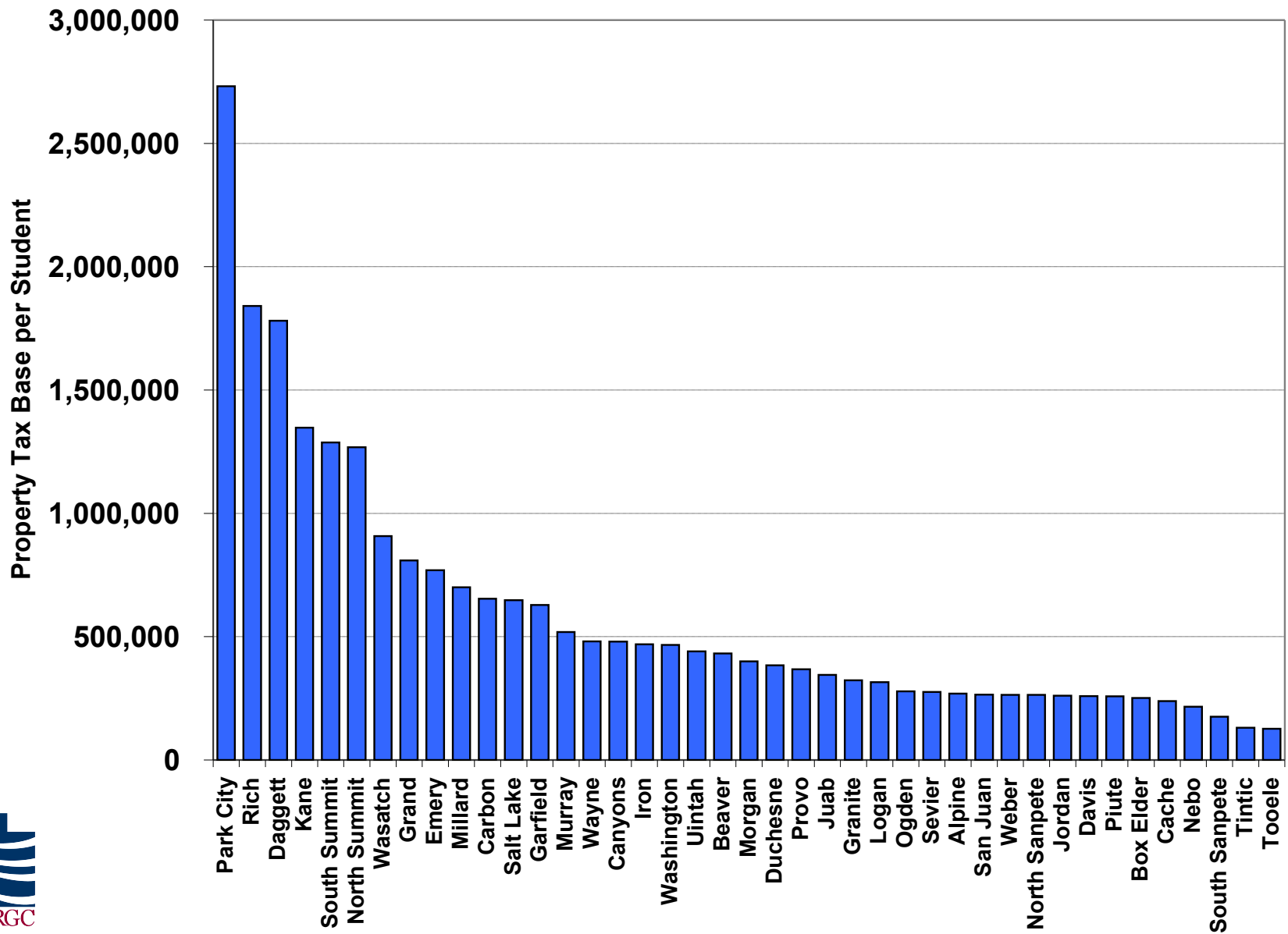
Suppose 3 school districts each need to raise \$1 million per year. The districts each have a different tax base from which to generate the \$1 million. To generate the same amount of total revenue, a taxpayer with an identically valued home in District A will pay five times the amount of tax the taxpayer in District C pays, because District C is able to generate the same revenue at a lower tax rate due to its larger tax base.

	<u>District A</u>	<u>District B</u>	<u>District C</u>
Tax Base	\$1,000,000,000	\$2,000,000,000	\$5,000,000,000
Needed Revenue	\$1,000,000	\$1,000,000	\$1,000,000
Rate Required to Generate Revenue	0.001000	0.000500	0.000200
Tax impact on \$250,000 primary residence	\$138	\$69	\$28

Because school districts have different sized tax bases and varying numbers of students to serve, it can be difficult to directly compare taxing capacity among school districts. One method of comparison is to compute the tax base per enrolled student.

Total Enrollment	8,000	4,000	2,000
Tax Base per Enrolled Student	\$125,000	\$500,000	\$2,500,000

Taxable Property Tax Base per Student (2009)



Data Source: Utah State Office of Education

School District Property Tax Levies

- Operations Levies

- Basic levy
- Voted leeway
- Board leeway
- K-3 reading

- 10% of basic levy

- 10% of basic levy can be used both for certain operations purposes (textbooks and supplies) and for capital outlay / certain debt service purposes

- Capital Outlay & Debt Service Levies

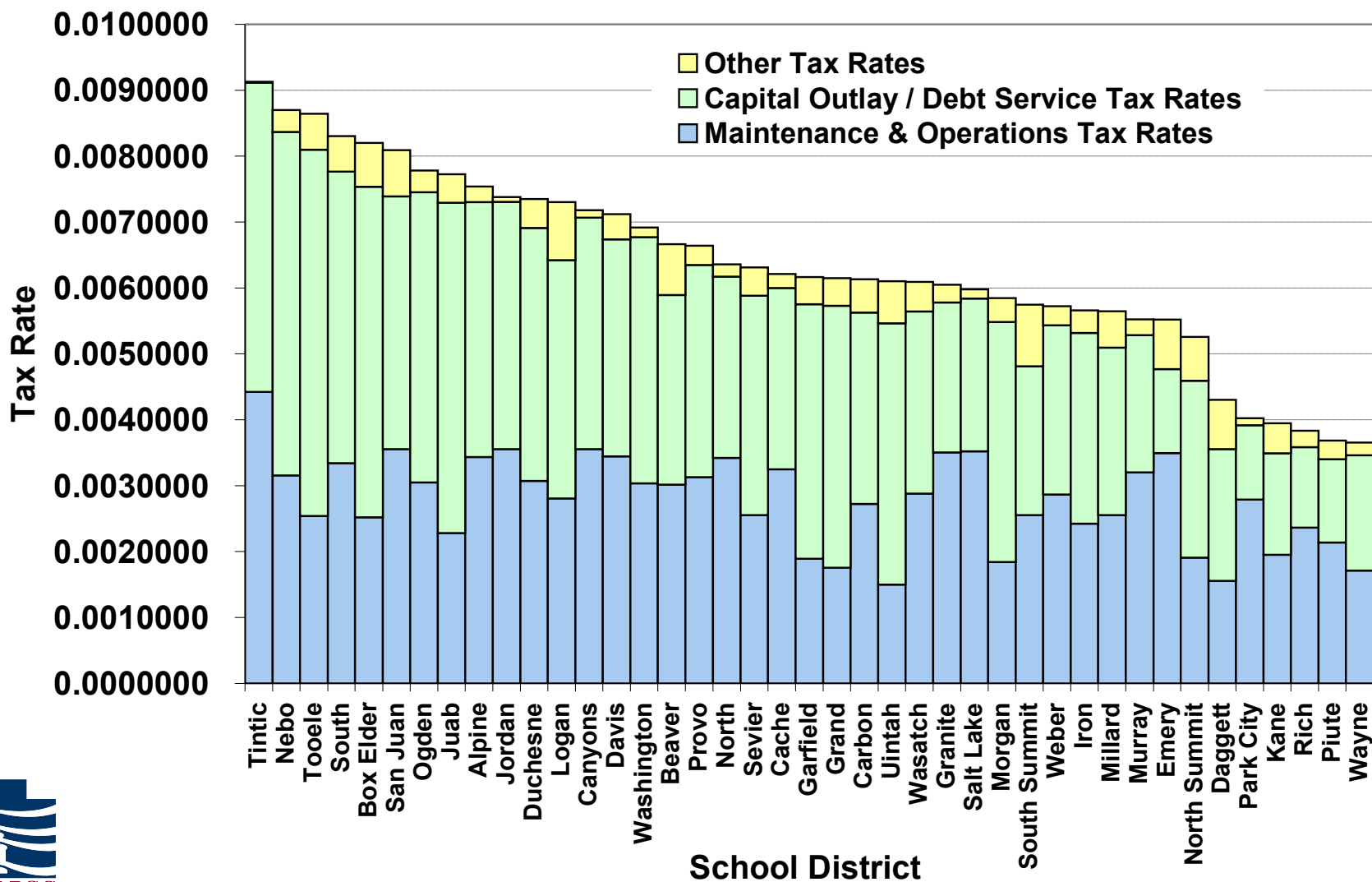
- Debt service
- Capital outlay
- Voted capital outlay (not currently imposed)

- Other Levies

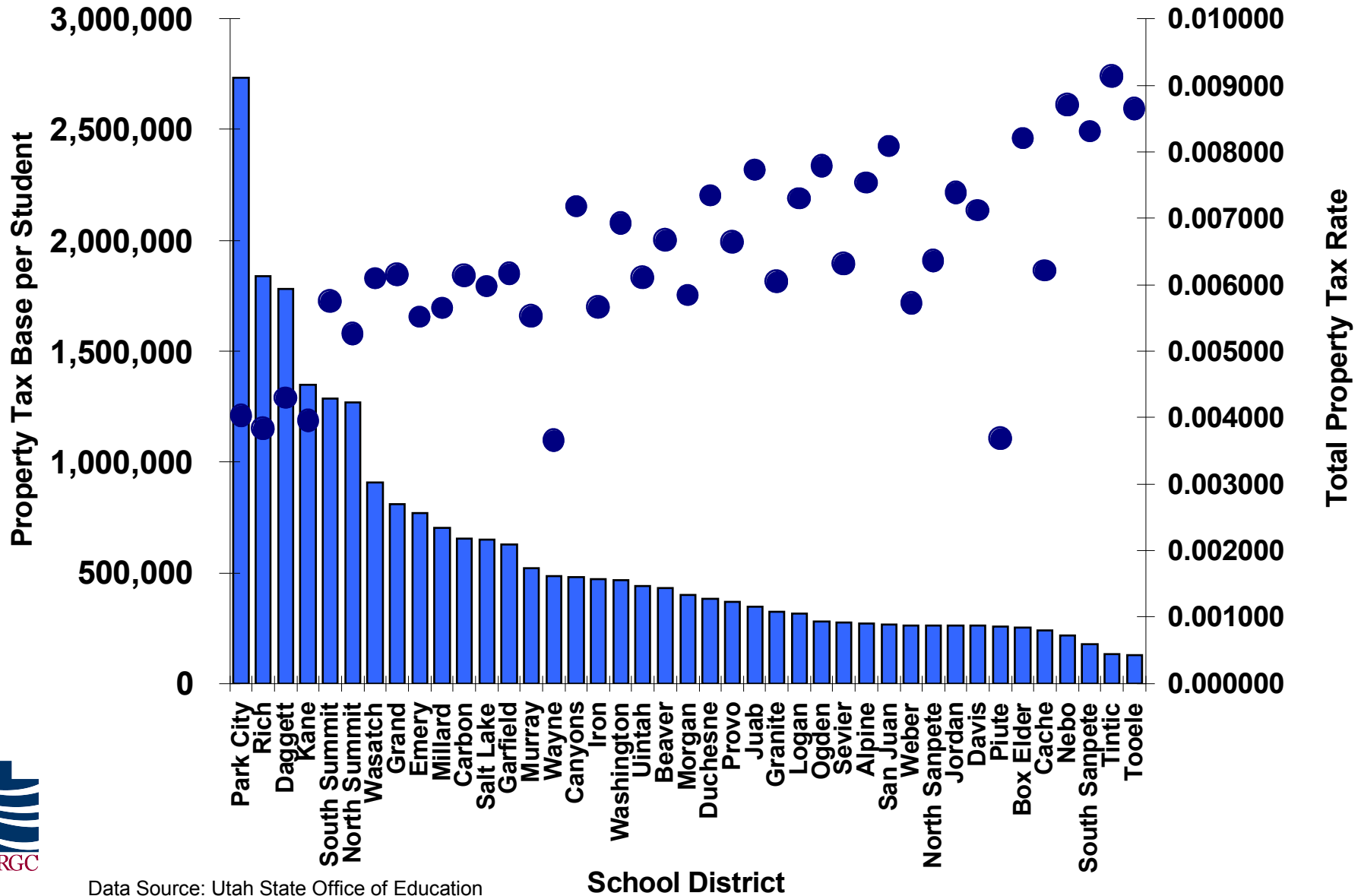
- Special transportation
- Recreation
- Judgment
- Tort Liability
- Public Law 874 - Federal impact aid / Title VII (not currently imposed)

Utah School District Property Tax Rates

Tax Year 2009



Property Tax Base per Student and Tax Rates (2009)

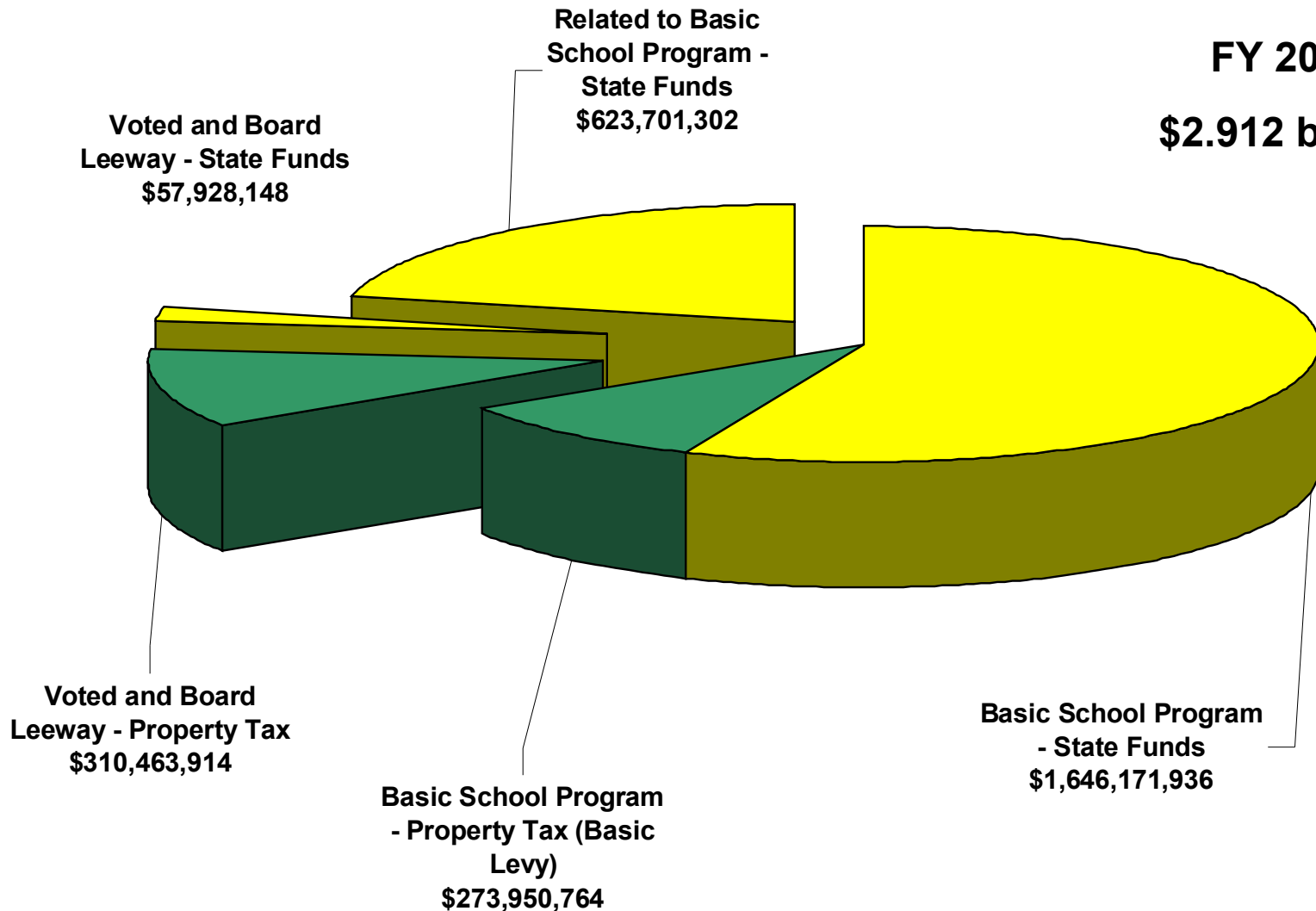


Data Source: Utah State Office of Education

Components of the Minimum School Program

FY 2011

\$2.912 billion



Basic Program

- The basic program (the largest component of the minimum school program) is fully equalized on both the tax side and expenditure side
- Tax = Uniform basic levy
- Expenditure = WPU allocation methodology

The Weighted Pupil Unit (WPU)

- The WPU is not total per-pupil spending
- The WPU is used to determine the cost of the basic school program on a uniform basis for each student
 - 1 WPU = 1 student in average daily membership (ADM)
 - Students in Kindergarten receive 0.55 WPUs
 - Specific programs generate additional WPUs, generally based on student qualifications (special education, technology education, etc.)
- The Legislature establishes the WPU value annually
 - FY 2010 WPU Value = \$2,577
 - Districts and charter schools receive basic program funding based on their total number of WPUs
 - Hypothetical example:
 $1,000 \text{ WPUs} \times \$2,577 = \$2,577,000$ (total basic program funding)

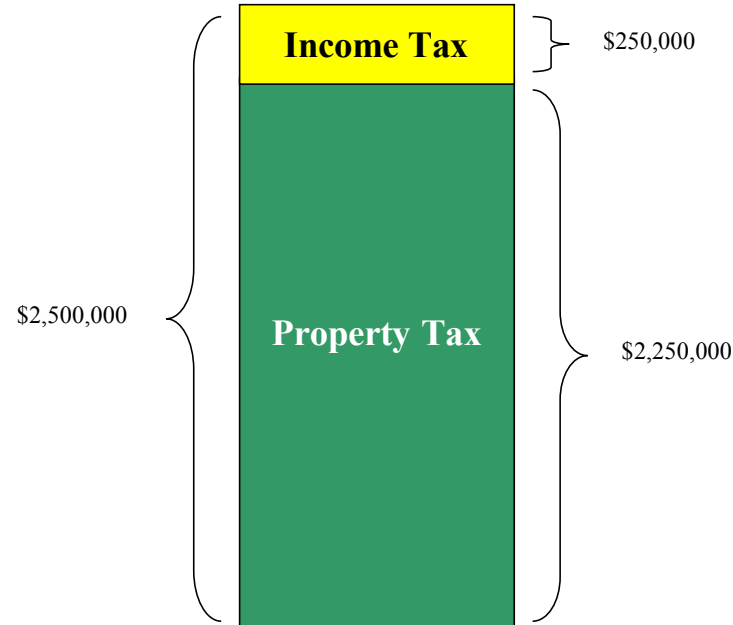
How is the Basic Program Equalized?

Hypothetical District

1,000 WPUs x \$2,500 per WPU = **\$2,500,000 basic program amount**

Property tax base = \$1,500,000,000 x basic levy (.001500) = **\$2,250,000 property tax revenue**

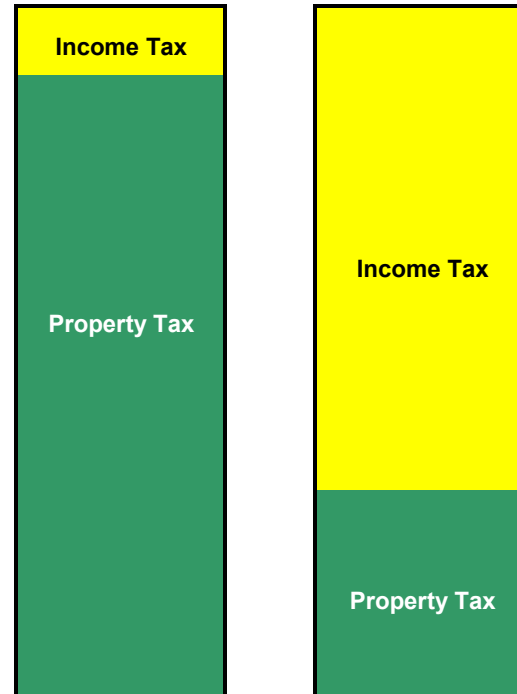
\$250,000 Income Tax (Uniform School Fund)



Basic Program

Two Hypothetical School Districts

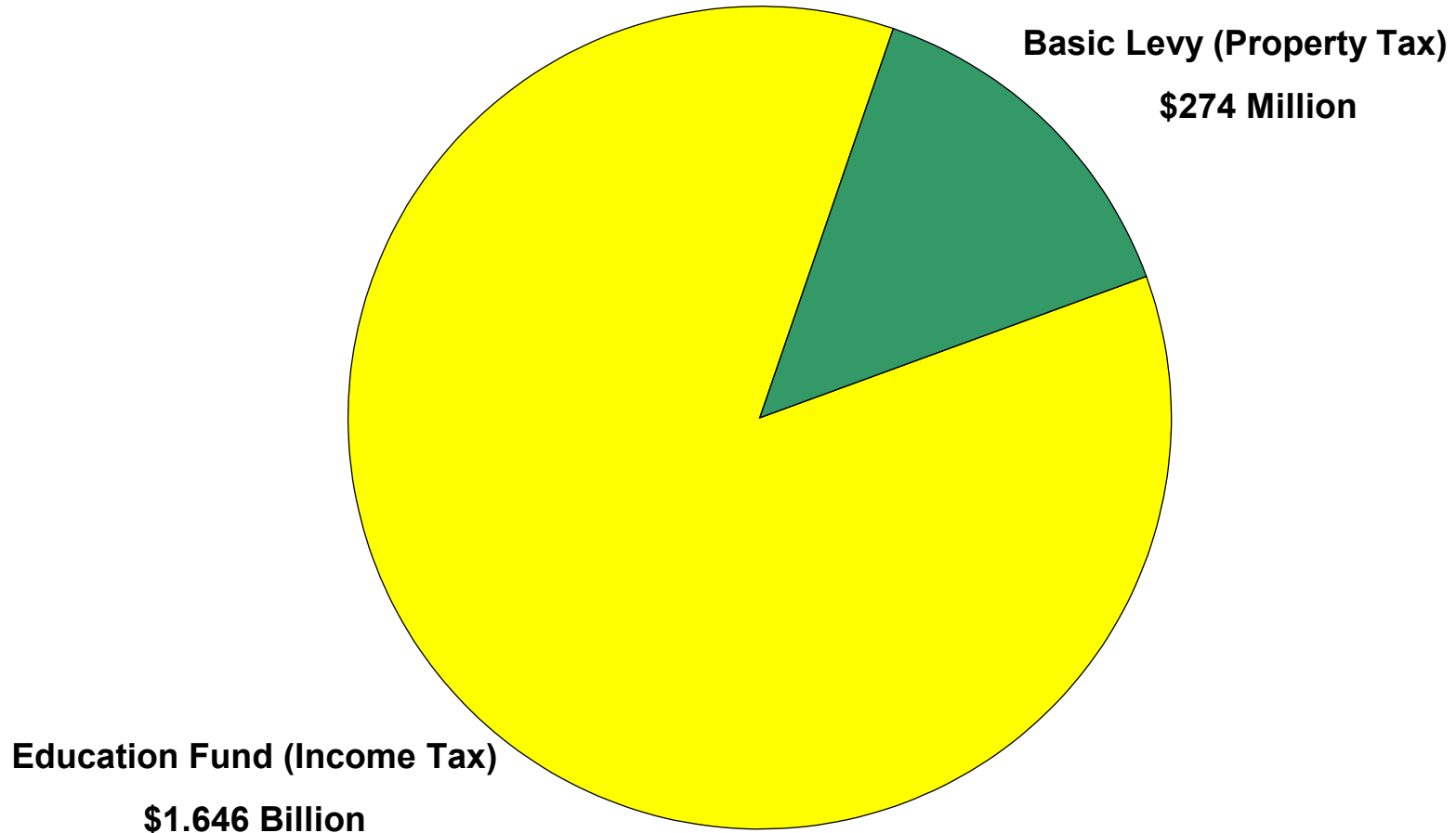
	District A	District B
Value of WPU	\$2,500	\$2,500
WPUs	1,000	1,000
Basic program statutory entitlement	\$2,500,000	\$2,500,000
Net Taxable Value (Property Tax Base)	\$1,500,000,000	\$500,000,000
Basic levy (Tax Rate)	0.001500	0.001500
Basic Levy Yield (Property Tax Revenue)	\$2,250,000	\$750,000
Allocation from Uniform School Fund	\$250,000	\$1,750,000



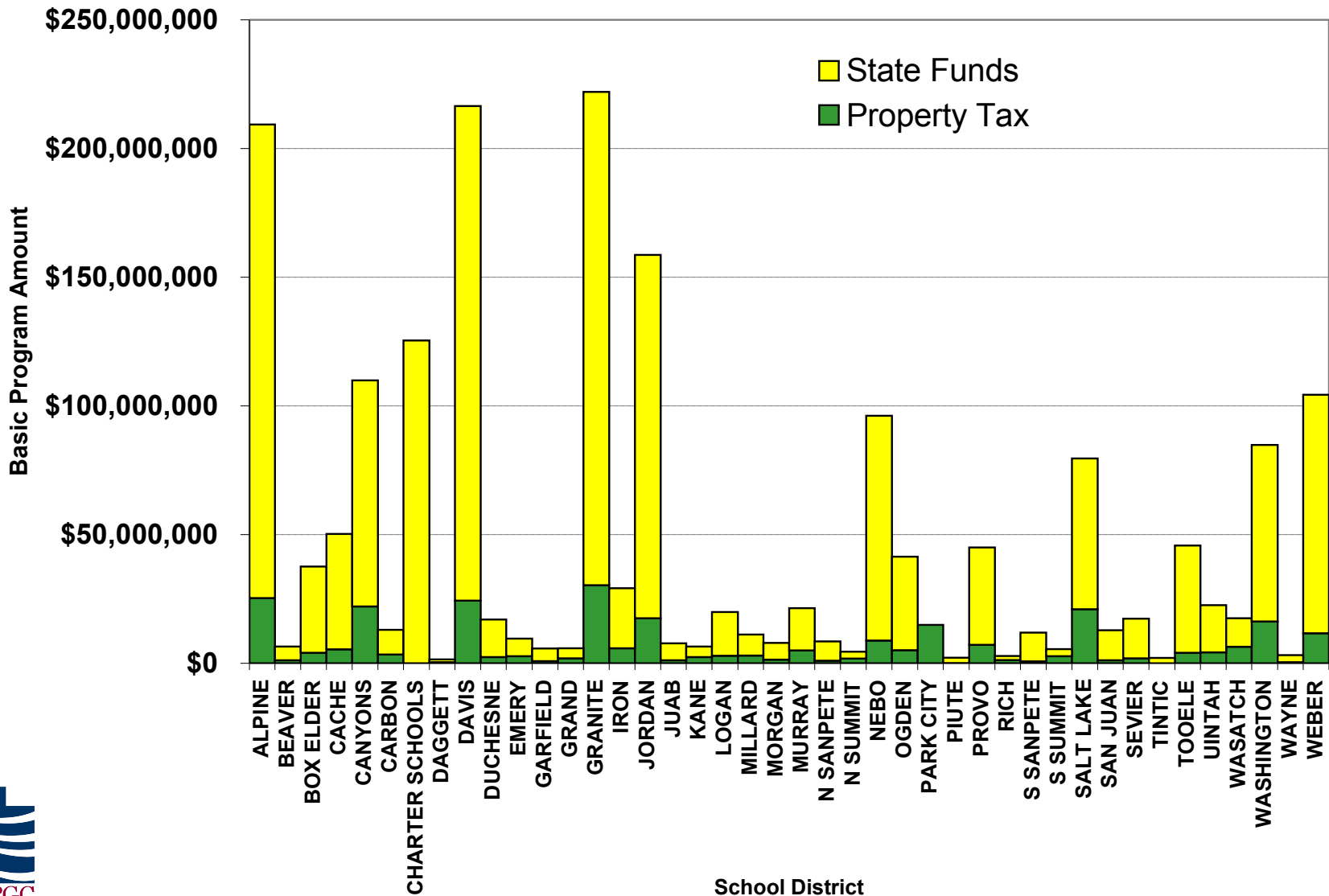
School Funding System Relies on Accurate Property Valuation

- Failure to accurately and uniformly assess properties at fair market value distorts the allocation of school funds
 - With the truth-in-taxation certified rate process, undervaluation of properties in one area causes higher taxes statewide through an increase in the certified rate for the basic levy
 - In addition to basic program funding, other state funds are also tied to property tax values per student, including voted/board leeway guarantees and capital outlay foundation program
- So assessment practices by the Tax Commission and assessors in each county impact taxpayers statewide

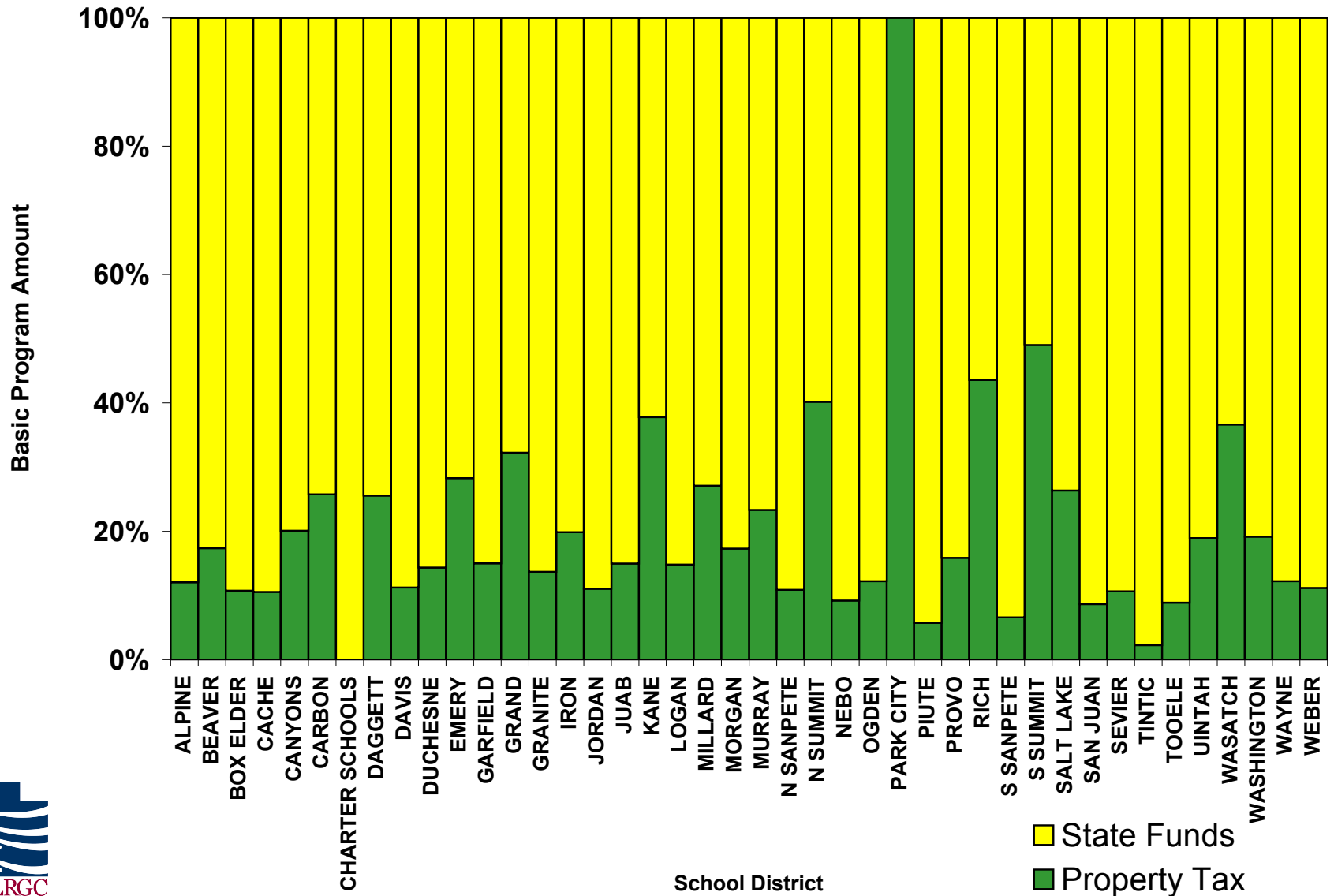
Statewide Basic Program Funding Sources



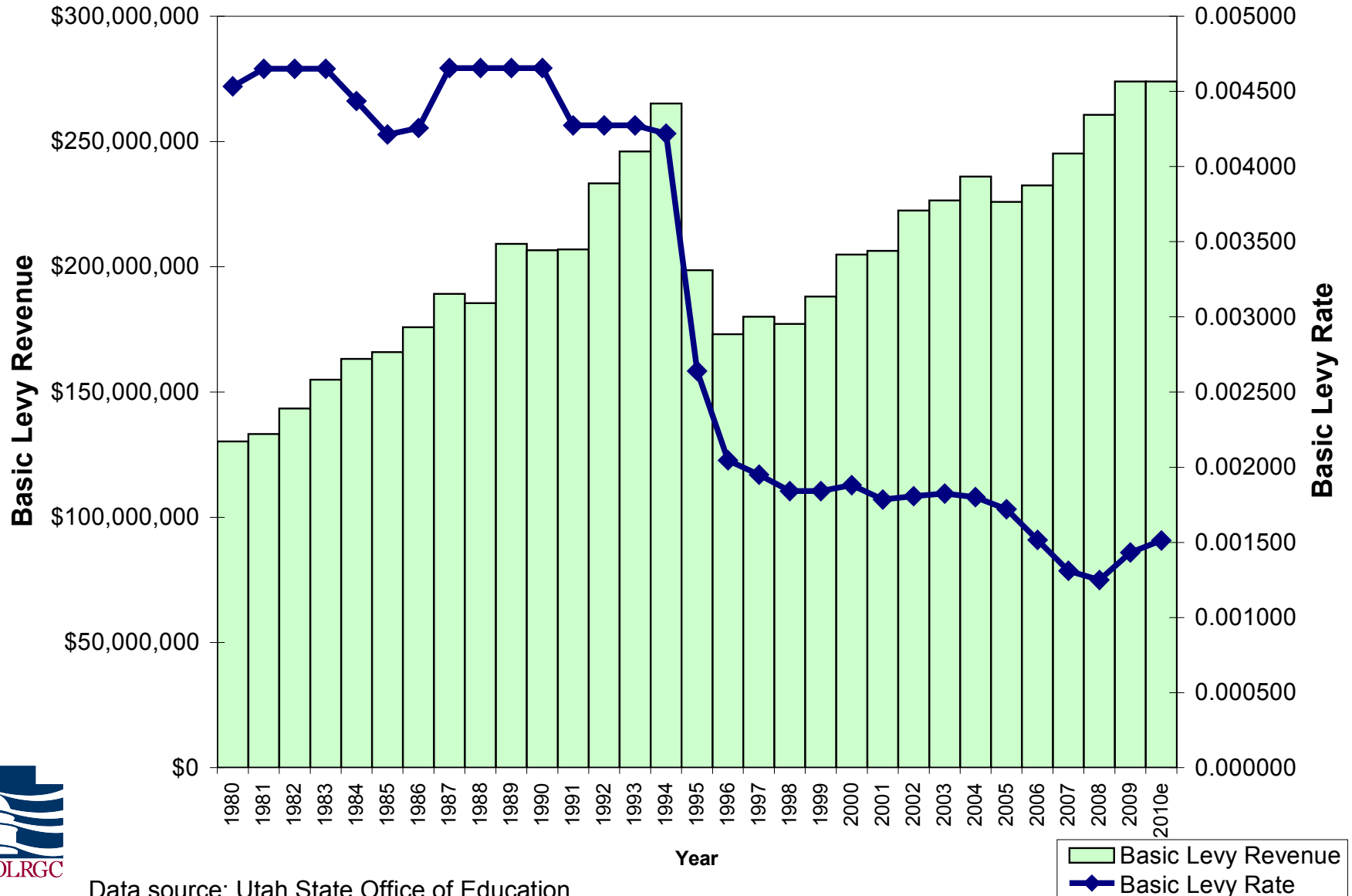
Basic Program Amounts



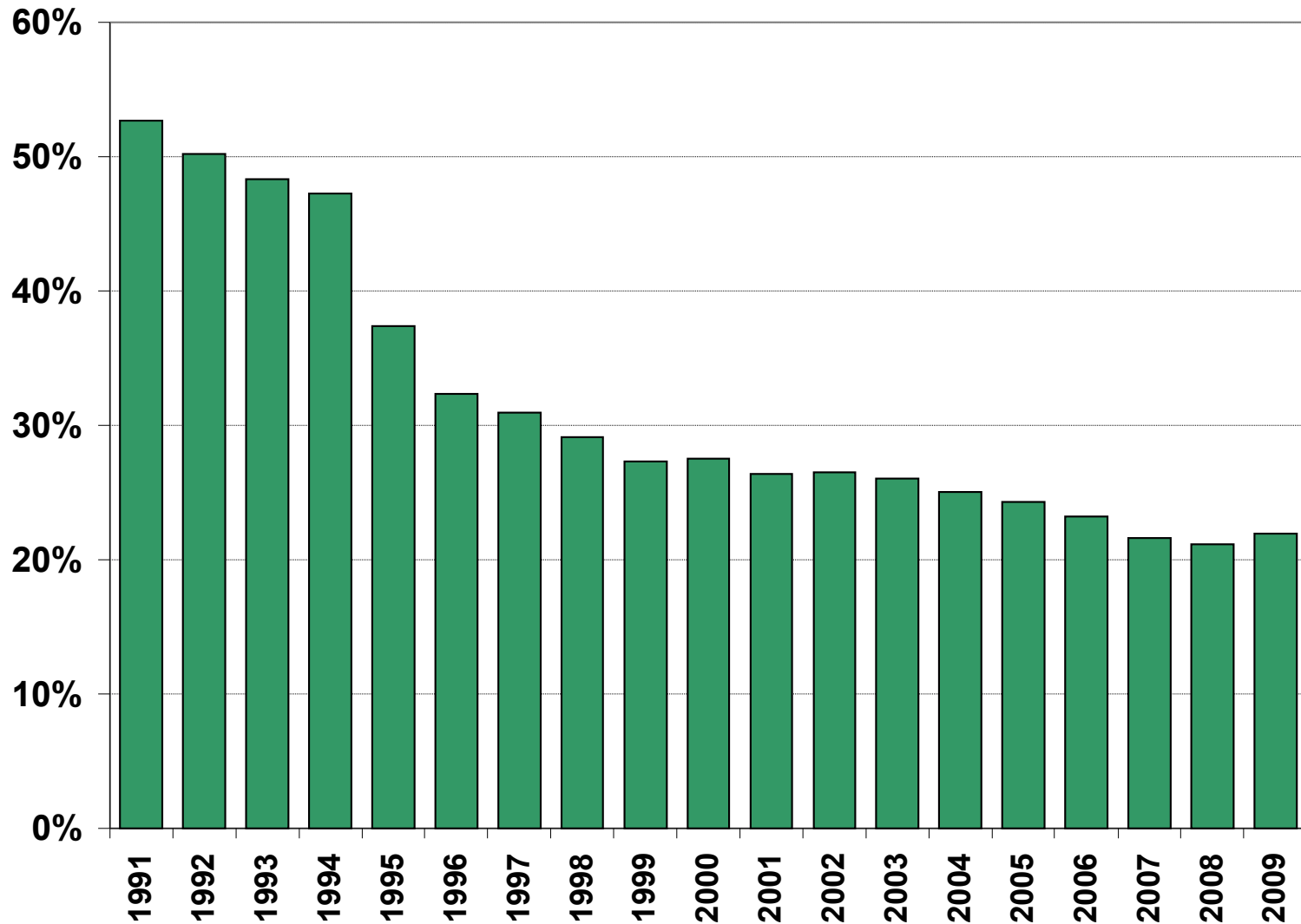
Basic Program Funding Source



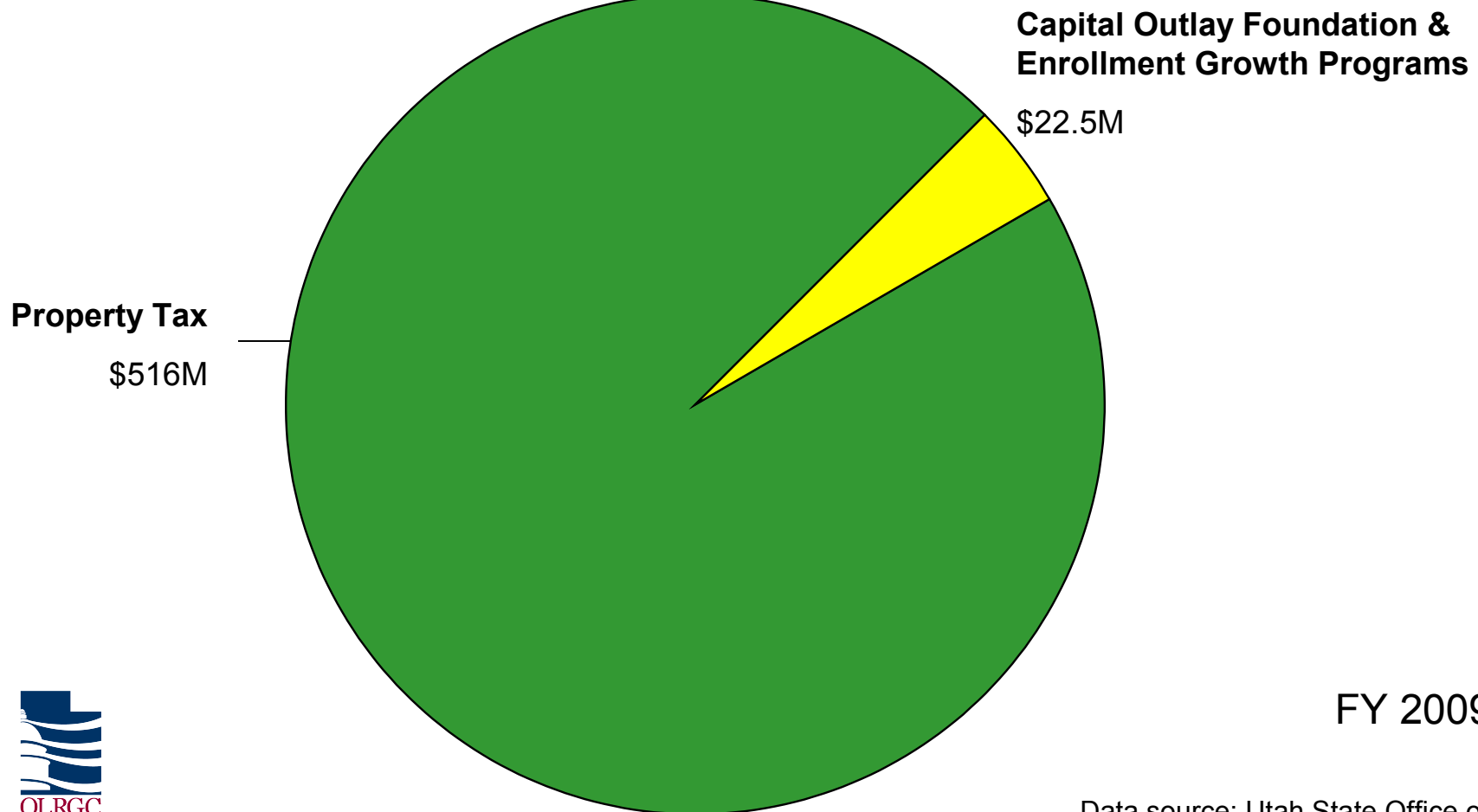
Basic Levy History



Basic Levy (Fully Equalized Statewide Property Tax) as % of Total School Property Tax



Statewide School District Capital Outlay Funding Sources



FY 2009-10

Data source: Utah State Office of Education

Takeaways

- Property tax resources vary widely among districts
 - An identical tax rate will generate much more revenue per student in some districts than others
- For M&O, state revenues substantially offset the property tax base disparities - but not completely
- For capital needs, school districts are currently largely on their own

Theoretical Equalization Continuum

Who should pay for school costs?

User Fee

Impact
Fee

District-wide
Equalization

County-wide
Equalization

Statewide
Equalization

Only parents
of children in
schools

Owners of
new homes
and new
businesses

All property
owners within
school district

All property owners
within a county
(same as district in all but
7 counties)

Taxpayers
statewide

*Secondary
school fees*

*Currently
prohibited by
statute*

*Discretionary school
property tax levies
(voted leeway, board
leeway, debt service
levy, capital outlay
levy, etc.)*

*Partial capital outlay
equalization in county of
the first class*

*Basic levy / basic
program, voted & board
leeway state funding,
educator salary
adjustments, state pupil
transportation funds*

Please feel free to contact
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